

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 57720

EAST VALLEY SCHOOL DISTRICT No. 361

Spokane County, Washington

September 1, 1994 Through August 31, 1995

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EAST VALLEY SCHOOL DISTRICT NO. 361
Spokane County, Washington
September 1, 1994 Through August 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Board of Directors
East Valley School District No. 361
Spokane, Washington

We have audited the financial statements, as listed in the table of contents, of East Valley School District No. 361, Spokane County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated June 12, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to East Valley School District No. 361 is the responsibility of the district's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the district complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the district's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the district and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

We noted matters involving noncompliance with laws and regulations related to federal financial assistance which were reported to the district's management in our report on specific compliance for nonmajor program transactions and in the Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

June 12, 1996

EAST VALLEY SCHOOL DISTRICT NO. 361
Spokane County, Washington
September 1, 1994 Through August 31, 1995

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Board of Directors
East Valley School District No. 361
Spokane, Washington

We have audited the financial statements of East Valley School District No. 361, Spokane County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated June 12, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the district, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk

that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

We noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the district's management in our report on specific compliance for nonmajor program transactions and in the Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

June 12, 1996

EAST VALLEY SCHOOL DISTRICT NO. 361
Spokane County, Washington
September 1, 1994 Through August 31, 1995

Schedule Of Findings

1. The District Should Improve Controls Over Enrollment Reporting

During our review of East Valley High School's monthly enrollment reporting to the Superintendent of Public Instruction (SPI), the following exceptions were noted:

- a. Supporting documentation of monthly enrollment counts were not consistently printed and retained. As a result, we were unable to verify the accuracy of the counts.
- b. For alternative instruction, two full-time-equivalents were claimed which did not meet the definition of a course of study.
- c. For Running Start students, 13.8 full-time-equivalents who did not attend district classes were claimed.

SPI Bulletin 34-95, page 13, requires the district to retain supporting documentation of monthly enrollment counts sufficient to substantiate compliance with enrollment reporting rules and regulations. Documentation should show that the student was enrolled and had attended within the last 20 consecutive school days. Documentation should also support the full-time equivalent reported by the district.

Washington Administrative Code (WAC) 392-121-107 states that students must be enrolled in a course of study in order to be counted and defines course of study.

WAC 392-169 governs Running Start enrollment.

The errors occurred because management failed to train personnel responsible for enrollment reporting on the required supporting documentation and the applicable statutes. In addition, management did not review and approve monthly enrollment reports prior to submission to SPI.

Because SPI uses the monthly enrollment reports as a basis for state funding, the district received more money than it was entitled to. We were unable to estimate the amount due to the apportionment formulas applied by SPI.

We recommend the district review all monthly enrollment reports submitted and the corresponding supporting documentation. We also recommend the district contact SPI to revise reports and to determine the amount of any repayment required. We further recommend the district implement procedures to verify the accuracy of monthly enrollment reported to SPI.

Auditee's Response

The district recognizes that with the implementation of a new alternative program at the high school and the hiring of a new attendance clerk, proper documentation was not kept. To alleviate this concern, district administrators have met with the high school principal, the high school attendance clerk, and alternative staff to ensure proper documentation and reporting of enrollments. ESD-generated enrollment lists are retained as back-up documentation for all students as well as Spokane Community College and Eastern Washington University class lists for Running Start students.

2. Coordination Of Enrollment Reporting Between The District And The Spokane Skills Center Should Be Improved

The district is a member of the Spokane Skills Center cooperative. The Spokane Skills Center is a cooperative involving eight Spokane area school districts. Spokane School District No. 81 operates the half-day programs which offer high school students a variety of occupational courses. Our comparison of East Valley School District and the Spokane Skills Center enrollment reports revealed that students were overclaimed. Students were claimed in combination by Spokane School District No. 81 and East Valley School District No. 361 as 1.2 to 1.6 full-time-equivalent on monthly enrollment reports submitted to the Superintendent of Public Instruction (SPI).

Washington Administrative Code (WAC) 392-121-136 states in part:

... no student, including a student enrolled in more than one school district, shall be counted as more than one full-time-equivalent student on any count date or more than one annual average full-time-equivalent student in any school year

WAC 392-121-122 defines full-time-equivalent, for students in grades 7 through 12, as 25 hours each week, or 5 hours (300 minutes) each scheduled school day.

Students exceeded one full-time-equivalent because enrollment reporting was not coordinated between the district and the Spokane Skills Center.

Because SPI uses the monthly enrollment reports as a basis for state funding, the district may have been overpaid. We were unable to estimate the amount due to the apportionment formulas applied by SPI.

We recommend the district, in cooperation with the Spokane Skills Center, implement written policies and procedures to ensure monthly enrollment reporting complies with statutes. We further recommend the district contact SPI to determine the amount of any repayment required.

Auditee's Response

The East Valley School District has counted full-time-equivalent students as those attending five hours each school day. In the case of those attending the Spokane Skills Center, East Valley has counted .2 of an FTE for every hour of attendance in our program. Since the Spokane Skills Center was counting .6 of an FTE for all students participating in the Skills Center, some students had more than 1.0 FTE. All member districts in the Skills Center are aware of this concern and are working on a cooperative solution. In the interim, East Valley School District will not claim over a .4 FTE for any student attending the Skills Center.

3. The District Should Maintain Adequate Documentation To Support Eligible Credits Reported To The Superintendent Of Public Instruction (SPI)

During our review of staff mix, we again noted that the district does not maintain adequate documentation to support the information submitted to SPI. We selected 26 certificated employee files for testing. We found that half of these files did not contain the required documentation to support eligible credits reported. Credits reported were either not documented by transcripts or did not agree with transcripts in the employee's files. Fifteen percent of the files reviewed contained credit errors that resulted in an overpayment of apportionment.

School districts are required to report annually to SPI the academic credits of its certificated staff. SPI uses this information in its determination of the amount of financial support (apportionment) due the district.

To ensure that amounts reported are accurate, WAC 392-121-280 requires in part:

School districts shall have documentation on file and available for review which substantiates each basic education certificated instructional employee's placement on LEAP salary allocation documents. The minimum requirements are as follows:

(2) Districts shall document academic credits by having on file a transcript from the registrar of the regionally accredited institution of higher education granting the credits

When the district submits erroneous information to SPI, it receives more apportionment than it is entitled to.

These errors occurred because supporting transcripts were accidentally discarded, transcripts were misread, addition errors were made, and because the district did not verify the accuracy of the information reported to SPI.

We recommend the district continue to review all certificated employee files and obtain any needed documentation to verify and support eligible credits reported to SPI. We also recommend the district contact SPI to correct any inaccurate information reported. We further recommend the district develop procedures to verify the accuracy of the information reported to SPI.

Auditee's Response

On page M-10 of the Audit Service report done during the 1994-95 school year, it was concluded that ". . . the concerns noted in this finding are being adequately addressed. We will review the district's progress in these areas during our next audit." Since we had conferred with audit officials and understood their directions, we feel we had responded and are responding appropriately. We were clearly aware that we were to review our certificated files for the 1995-96 report.

Recognizing that we were to review those files, a thorough review was begun in the summer of 1995 and was consummated in February of 1996. Through this review we were able to rectify the great percentage of all certificated areas of concern. To do so we acquired additional appropriate transcripts, secured the proper clock hour forms, validated the dates that degrees were conferred, sent for new verifications on experience, and reviewed our salary placement data. As per your recommendations, this was done to assure that our report during the fall of 1996 would be properly substantiated. We are continuing our review of all certificated files and are obtaining any documentation necessary to verify and support eligible credits reported to SPI.

Furthermore, once we were asked to review the data for the 1993-94 and the 1994-95 reports (this request made know to me in April of 1996), we began immediately to do so. That complete information will be submitted to Mr. David M. Hauntz from SPI by the 30th of September 1996. These conditions were mutually agreed to by Mr. Hauntz and Mr. Tom Crouch, East Valley School District's Business Manager.

The district has already developed procedures to verify the accuracy of the information reported to SPI by . . .

-- assigning one hundred twenty-five (125) additional work hours to the task,

-- reassigning the responsibility for collection, recording and reporting appropriate documentation to another desk in our central office,

-- assigning additional hours to Personnel, that we will be able to interact more promptly with Business in the review process,

-- and, lastly, implementing a series of checks-and-balances to assure that discrepancies will be noted on a regular and timely fashion and that subsequent reporting to SPI for the purposes of apportionment will be accurate and documented.

These steps and our commitment to responsibilities under WAC 392-121-280 further assure that appropriate responses have been taken to previous audit findings and recommendations. We wish to thank the auditor's team for their assistance and cooperation during the audit.

4. Internal Controls Over Associated Student Body (ASB) Accounting Should Be Improved

Our review of the district's ASB accounting records identified the following internal control weaknesses:

a. Cash Receipting

(1) Receipts were not issued immediately. Instead, funds were placed in envelopes which increased their risk of undetected loss or theft.

(2) Rediform receipts were issued for a large fundraiser. Rediform receipts do not ensure a receipt number sequence. As a result, we could not ensure that all receipts issued were accounted for.

(3) Mode of payment (cash/check composition) was not consistently indicated on receipts. Composition is a necessary audit trail to prevent and detect a common scheme used to steal funds. Recommendations were made during the prior audit.

(4) Receipts were not supported by documentation to substantiate amounts. We could not verify that all funds collected were deposited for the benefit of the ASB Fund. Recommendations were made during the prior audit.

b. Cash Disbursement

(1) Imprest checks were issued without adequate supporting documentation. We could not ensure that expenditures had not been duplicated or were for a valid ASB purpose.

(2) Bank reconciliations were not performed for the imprest checking account. In addition, account activity was not reviewed by an independent person.

Accounting Manual for School Districts in the State of Washington, Chapter IX, Section ASB, pages 7-8 states in part:

... Issue official prenumbered receipts for all moneys received ... Maintain accounting records of financial transactions and files of supporting documents ... Prepare an imprest bank checking account reconciliation statement ...

The district did not have adequate procedures in place to ensure that the ASB Fund was operated in compliance with statutes. Weak internal controls increase the risk that errors or theft will occur and not be detected in a timely manner, if at all. Additionally, we were unable to verify that all funds collected were deposited for the benefit of the ASB Fund.

We recommend the district:

- a. Educate management and advisors on the laws governing ASB activities.
- b. Monitor advisors for compliance with the laws.
- c. Receipt all funds immediately.
- d. Issue only official prenumbered receipts.
- e. Record mode of payment on all receipts.
- f. Only make payments off of original, unaltered invoices or receipts.
- g. Reconcile the imprest checking account. This reconciliation should be periodically reviewed by an independent person.

Auditee's Response

The District recognizes the need to increase ASB regulation awareness. In order to ensure this, the District has done the following:

- 1) *The high school bookkeeper has attended the Washington Association of School Business Officials Conference and has implemented suggested guidelines.*
- 2) *The high school bookkeeper and principal have prepared an advisor's handbook (copy attached) and a fund raising course that all advisors are required to attend.*
- 3) *Pre-numbered receipts will be required for fund raisers.*
- 4) *The payment process has been improved to pay from original receipts or invoices.*
- 5) *The imprest checking account is being reconciled monthly and periodically reviewed by the district assistance business manager.*

Auditor's Concluding Remarks

We appreciate the district's response to our audit findings. It appears that the concerns noted in these findings are being adequately addressed. We will review the district's progress in these areas during our next regularly scheduled audit.

We also wish to thank the district's officials and personnel for their assistance and cooperation during our audit.

EAST VALLEY SCHOOL DISTRICT NO. 361
Spokane County, Washington
September 1, 1994 Through August 31, 1995

Independent Auditor's Report On Financial Statements

Board of Directors
East Valley School District No. 361
Spokane, Washington

We have audited the accompanying financial statements of East Valley School District No. 361, Spokane County, Washington, as of and for the fiscal year ended August 31, 1995. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the general fixed asset account group, which should be included in order to conform with generally accepted accounting principles. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of East Valley School District No. 361 as of August 31, 1995, and the results of operations and cash flows of its nonexpendable trust funds for the fiscal year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 12, 1996, on our consideration of the district's internal control structure and a report dated June 12, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

June 12, 1996

EAST VALLEY SCHOOL DISTRICT NO. 361
Spokane County, Washington
September 1, 1994 Through August 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Board of Directors
East Valley School District No. 361
Spokane, Washington

We have audited the financial statements of East Valley School District No. 361, Spokane County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated June 12, 1996.

We have applied procedures to test the district's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended August 31, 1995:

- Political activity
- Civil rights
- Cash management
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Davis-Bacon Act
- Relocation assistance and real property acquisition
- Federal financial reports
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the district had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited.

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

June 12, 1996

EAST VALLEY SCHOOL DISTRICT NO. 361
Spokane County, Washington
September 1, 1994 Through August 31, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs

Board of Directors
East Valley School District No. 361
Spokane, Washington

We have audited the financial statements of East Valley School District No. 361, Spokane County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated June 12, 1996.

We also have audited the district's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended August 31, 1995. Those requirements include:

- types of services allowed or unallowed
- eligibility
- matching, level of effort, or earmarking
- special tests and provisions related to carryover of funds, parent involvement, program effectiveness, private school participation, schoolwide projects, and timely obligation of funds as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*
- claims for advances and reimbursements
- and amounts claimed or used for matching

The management of the district is responsible for the district's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the district's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, East Valley School District No. 361 complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance programs for the fiscal year ended August 31, 1995.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited.

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

June 12, 1996

EAST VALLEY SCHOOL DISTRICT NO. 361
Spokane County, Washington
September 1, 1994 Through August 31, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions

Board of Directors
East Valley School District No. 361
Spokane, Washington

We have audited the financial statements of East Valley School District No. 361, Spokane County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated June 12, 1996.

In connection with our audit of the financial statements of the district and with our consideration of the district's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to its nonmajor federal financial assistance programs for the fiscal year ended August 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures and eligibility of the individuals or groups to whom the district provides federal financial assistance that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that East Valley School District No. 361 had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed an immaterial instance of noncompliance with those requirements, which is described in the accompanying Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

June 12, 1996

EAST VALLEY SCHOOL DISTRICT NO. 361
Spokane County, Washington
September 1, 1994 Through August 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Board of Directors
East Valley School District No. 361
Spokane, Washington

We have audited the financial statements of East Valley School District No. 361, Spokane County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated June 12, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated June 12, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the district complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the district's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated June 12, 1996.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Payroll
 - General ledger
- **General Requirements**
 - Political activity
 - Civil rights
 - Cash management
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements
- **Specific Requirements**
 - Types of services
 - Eligibility
 - Matching, level of effort, earmarking
 - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Receivables
 - Accounts payable
 - Purchasing and receiving
 - Inventory control
 - Property, plant, and equipment
- **General Requirements**
 - Davis-Bacon Act
 - Relocation assistance and real property acquisition
 - Federal financial reports
 - Subrecipient monitoring
- **Specific Requirements**
 - Reporting

During the fiscal year ended August 31, 1995, the district expended 67 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the district's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

June 12, 1996

EAST VALLEY SCHOOL DISTRICT NO. 361
Spokane County, Washington
September 1, 1994 Through August 31, 1995

Schedule Of Federal Findings

1. Controls Over Special Education Enrollment Reporting Should Be Improved

The district does not have an adequate internal control system to ensure that only eligible students are claimed on the Monthly Report of School District Special Education Enrollment (P-223H) submitted to the Superintendent of Public Instruction (SPI).

We reviewed the district's special education enrollment system and noted a weakness which resulted in claiming five students twice. We also reviewed 61 student files for compliance with eligibility requirements. The student files contained Individual Education Plans (IEPs) and Evaluations. Due to the expiration of required evaluations and due to withdrawals, 6 students claimed were ineligible. This represents an 9.8 percent error rate.

The *Washington Administrative Code* (WAC) 392-171 defines the criteria which must be met in order for a student to be claimed on the P-223H. SPI uses the P-223H as a basis for state special education funding.

Additionally, the *Compliance Supplement for Single Audits of State and Local Government*, prescribed by the Executive Office of Management and Budget, requires current IEPs and evaluations for federal special education funding (CFDA 84.027).

Inaccurate reporting of special education enrollment resulted in the distribution of special education funding in excess of what the district was entitled and reduced the funding available to other districts. Due to the apportionment formulas applied by SPI, we were unable to estimate the overpayment of state funds. However, by projecting the error rate to the federal funds provided, we have included \$12,142 in the accompanying Schedule of Questioned Costs.

Ineligible students were claimed because enrollment reports were not reviewed to ensure that students were not duplicated or withdrawn. The error also occurred because the transfer date, instead of the evaluation date, was recorded in the special education database. The database was used to monitor the evaluation due dates.

We recommend the district review all enrollment reports, student files, databases, and P-223Hs from the implementation of the program. We also recommend the district contact the Department of Education and SPI to determine the amount of any repayment required. We further recommend the district implement controls to ensure accurate reporting of special education enrollment.

Auditee's Response

The East Valley special education program did count special education students from a single list of students serviced, submitted by each teacher and service provider. In December 1995, we implemented a single list of special students receiving services with a listing of each teacher/service provider instructing that student. This change will assure students will not be double counted, in that each student is listed only once. This change was shown to the auditor while she was reviewing our records for November 1995. In addition, we have initiated a process that cross checks the students counted against a single master list of all special education students.

The East Valley process of conducting IEP's is to contact parents well prior to the one year expiration time line to establish an IEP. The students indicated to have had an expired IEP occurred when parents did not show up for the agreed upon IEP meeting. The team did not conduct the IEP, due to parent not being there. Later the IEP team contacted the parents, arranged another time and conducted the IEP. Unfortunately, the next time the parents were available was after the expiration of the one year time line. I have directed IEP teams to conduct the IEP whenever a parent does not show up for a scheduled IEP meeting, so that we will not violate the yearly IEP requirement.

We did have a student who had withdrawn from a building and we were not notified by the building secretary. We have and will continue to emphasize to building personnel the importance of notifying the special programs department whenever a special education student withdraws from the district. Also, a concerted effort has been made to enter all special education records on the WSICP system for future reporting.

All special education files have been thoroughly reviewed to determine the evaluation date is correct and does not reflect the transfer dates that the student entered our special education program.

Auditor's Concluding Remarks

It appears that the concerns noted in this finding are being adequately addressed. We will review the district's progress in this area during our next regularly scheduled audit.

We again wish to thank the district's officials and personnel for their assistance and cooperation during our audit.

EAST VALLEY SCHOOL DISTRICT NO. 361
Spokane County, Washington
September 1, 1994 Through August 31, 1995

Schedule Of Questioned Costs

<u>Grant</u>	<u>Costs Questioned</u>	<u>Explanation/ Reference</u>
Special Education (CFDA 84.027)	\$12,142	See Federal Finding 1

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Status Of Prior Findings

The findings contained in the prior audit report were resolved as follows:

1. The District Should Improve Control Over The Purchase Of Meals At Local Restaurants

Resolution: The district adopted a Travel Expense Reimbursement Policy and has cut meals at local restaurants in half. While improvements were noted, supporting documentation did not consistently meet the requirements of the district's policy. We will continue to monitor the district's progress in this area during our next audit.

2. The District Should Obtain Adequate Documentation To Support Payments

Resolution: Documentation to support payments has improved. We will continue to monitor the district's progress in this area during our next audit.

3. Internal Controls Over Associated Student Body Accounting Should Be Improved

Resolution: East Valley High School made significant improvements in the ASB accounting areas noted. However, testing revealed that receipts still were not supported by documentation to substantiate amounts. The finding has been repeated. See Finding 4.

4. The District Should Maintain Adequate Documentation To Support Academic Credits Reported To The Superintendent Of Public Instruction (SPI)

Resolution: The district recently completed a review of all certificated employee files. It has not yet submitted corrections for the 1993-94 staff mix data. Exceptions were also noted with the 1994-95 staff mix data. See Finding 3.

EAST VALLEY SCHOOL DISTRICT NO. 361
Spokane County, Washington
September 1, 1994 Through August 31, 1995

Directory Of Officials

Elected

		<u>Term</u>	<u>Expiration</u>
Board of Directors:			
Chairperson	June Sine	4	1997
Vice Chairperson	Karl Wilkinson	4	1997
	Tim Wick	4	1999
	Brenda Lobdell	4	1995
	Marie Francis	4	1999
	Karen Cecil	4	1997

Appointed

Superintendent	Charles G. Stocker
Assistant Superintendent) Curriculum	Tom Feldhausen
Assistant Superintendent) Administration/Personnel	Darryl Isotalo
K-8 Director	Lu Embrey
Business Manager	Thomas Crouch
Director of Special Services	Larry Busse
Attorney	Robert Winston, Jr.

Mailing Address

District	North 3415 Pines Road Spokane WA 99206
Attorney	Suite 700 Lincoln Building W 818 Riverside Spokane WA 99201